

**EXPORT-IMPORT BANK OF THE
UNITED STATES**



**REPORT TO THE U.S. CONGRESS
ON EXPORT CREDIT COMPETITION AND
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

**FOR THE PERIOD
JANUARY 1, 2001 THROUGH DECEMBER 31, 2001**

JULY 2002



EDUARDO AGUIRRE
VICE CHAIRMAN

EXPORT-IMPORT BANK
OF THE UNITED STATES

July 10, 2002

Dear Chairman Sarbanes and Chairman Oxley:

Pursuant to Section 2(b)(1)(A) of the Export-Import Bank Act of 1945, as amended, I am pleased to submit the Competitiveness Report for the period January 1, 2001 through December 31, 2001.

Sincerely,

A handwritten signature in cursive script, appearing to read "E. Aguirre".

Eduardo Aguirre
Vice Chairman

The Honorable
Paul Sarbanes
Chairman, Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable
Michael Oxley
Chairman, Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

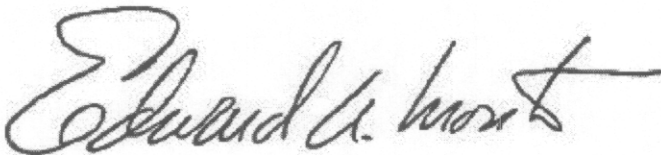
**THE 2002 ADVISORY COMMITTEE'S STATEMENT ON THE
COMPETITIVENESS REPORT OF
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

The members of the 2002 Ex-Im Bank Advisory Committee, having reviewed the Competitiveness Report for Calendar Year 2001, would like to put forward the following statement on the competitiveness of the Bank with regard to other major export credit agencies (ECAs):

The Advisory Committee supports the conclusion of the Report that the Ex-Im Bank remains competitive vis-à-vis the other major ECAs. Many of the Advisory Committee members have had extensive experience with Ex-Im Bank programs and believe that – with the possible exception of tied aid – the Bank offers support that is highly competitive in its risk coverage, financial terms and pricing for all categories of borrowers. To better support this conclusion, however, the Advisory Committee would like to see in future Competitiveness Reports quantifiable measures of competitiveness – e.g., loss ratios as a measure of risk appetite.

The Advisory Committee notes the Report's findings that certain non-financial factors continue to impact Ex-Im Bank and could impair its competitiveness long-term if not properly addressed. The Advisory Committee also recognizes, however, that many of these non-financial factors are geared towards addressing other public policy objectives.

Ex-Im Bank has a critical role in facilitating U.S. exports and in creating and maintaining U.S. jobs. As such, the Bank should be both aggressive and creative in meeting competition, and it should partner with the private sector to meet market needs. The Bank must expedite the advancement of its information technology capabilities to make internal processes more efficient and to deliver trade finance to the marketplace effectively. Further, it is essential that the Bank continue to “fill the gap” in the volatile emerging markets where private sector financial institutions cannot accept risk.



Edward A. Monto
Chairman
2002 Ex-Im Bank Advisory Committee

Table of Contents

Executive Summary	1
Introduction: Ex-Im Bank and Competitiveness	3
Part 1: Standard Official Export Credit:	
A: Country Cover Policy and Risk-Taking Practices	6
B: All-In Cost	11
C: Content Policies - Foreign Content and Local Costs	16
Part 2: Official Export Credit for Large Commercial Aircraft	22
Part 3: Trade-Related Aid.....	27
APPENDICES:	
A: G-7 Official Export Credit Institutions.....	36
B: Exporter and Bank Survey Overview and Methodology	43
C: Progress Towards Reducing Government Supported Export Credit Subsidies	47
D: Ex-Im Bank Foreign Content Support for Medium- and Long-Term Transactions in 2001	53
E: Human Rights and Other Foreign Policy Considerations	56
F: Equal Access for U.S. Insurance.....	57
G: The Trade Promotion Coordinating Committee	58
H: Tied Aid.....	59
I: Market Windows	75
J: Co-Financing.....	78

Executive Summary

This report provides an analytical assessment of the competitiveness of the Export-Import Bank of the United States (Ex-Im Bank), from both an objective perspective, based on published program and policy information on the foreign export credit agencies (ECAs), and a more subjective perspective as perceived by Ex-Im Bank program users. ECA competition generally centers on medium- and long-term business in developing countries. Ex-Im Bank gauges its competitive position in relation to the official ECAs of the G-7 countries, which provided, on average over the last ten years, 80% of the medium- and long-term official export credits of the OECD countries.

Taking a broader view, calendar year 2001 was characterized by widespread review of the basic mission and scope of virtually every G-7 ECA. Although the goals and reasons for the changes are not fully transparent in many of these situations, there appear to be two major tendencies emerging. Specifically:

- ◆ The ECA world is becoming more disciplined financially and budgetarily, though not necessarily more constrained in volume. This discipline generally takes the form of applying transactional reserves to a capital base to ensure “good practice” in overall resource allocation.
- ◆ There is a broader connection to social concerns in general. While this tendency was most obviously exhibited in 2001 with regards to the environment, the movement also applied to other topics such as human rights and sustainable development.

Specific programmatic and policy findings of this year’s *Competitiveness Report* can be summarized as follows:

Cover Policy

Ex-Im Bank continues to be competitive in its cover policy and risk-taking practices. Once Ex-Im Bank is open in a market for a given term, U.S. exporters and banks benefit from the lack of country and sector ceilings that other ECAs place on their cover policies. In addition, Ex-Im Bank is less risk-averse in its willingness to extend credit to smaller private entities. Unilateral sanctions continue to be a limitation on Ex-Im Bank competitiveness in certain markets where other G-7 ECAs are expanding their support for their national exporters.

All-in Cost

Ex-Im Bank is quite competitive in terms of all-in cost with the other major ECAs. The level playing field created by the Commercial Interest Reference Rate (CIRR) and exposure fee rules helps ensure that borrowers see about the same all-in costs regardless of the ECA providing official support. While the sovereign exposure fee floor for Ex-Im Bank’s “above standard”

products is higher than that for ECAs that offer “standard” or “below standard” products, this cost is neutralized by the lower interest rates available under Ex-Im Bank’s 100% pure cover guarantee. There are two key characteristics of the all-in cost components. First, the United States is generally offering the best all-in rate on non-sovereign transactions. Second, in some transactions, the potential for cross-subsidy in interest make-up may unlevel the playing field and put U.S. exporters at a competitive disadvantage.

Content Policy

A comparison of ECA practices and the results of a survey of Ex-Im Bank program users indicated that the increased flexibility resulting from the content procedure and policy changes have rendered Ex-Im Bank’s financing more competitive with foreign ECA practices than before.

Aircraft

Ex-Im Bank financing for large aircraft exports is generally competitive with financing offered by its European counterparts.

Tied Aid

While the Helsinki Package has successfully disciplined the provision of tied aid credits, reducing overall volumes and directing aid to countries and sectors that cannot sustain market financing, trends within the past few years indicate a willingness among some countries to consistently devote significant resources to providing tied aid. In addition, some countries may be using carve-outs to the Helsinki disciplines to provide aid credits to commercially viable projects (and gain long-term commercial advantages). Further, OECD negotiations made little progress in 2001 on controlling practices of concern. Hence, Ex-Im Bank’s tied aid policies and practices in 2001 appear less than fully competitive in comparison to those of other countries.

Introduction

INTRODUCTION

Pursuant to its charter (the Export-Import Bank Act of 1945, as amended) Ex-Im Bank is mandated to provide U.S. exporters with financing terms and conditions that are competitive with those financing terms and conditions provided by foreign governments to their exporters. The purpose of this report, which is required by Section 2(b)(1)(A) of the charter, is to measure the effectiveness of Ex-Im Bank's programs and policies in meeting the competitiveness mandate during calendar year 2001.

Methodology and Scope

In preparing this report, Ex-Im Bank draws upon: (1) policy and programmatic information of other export credit agencies (ECAs) obtained from a variety of sources, including publications that report on activities and trends in the official ECA arena; and (2) anecdotal information provided by the U.S. export community based on transactional experience throughout calendar year 2001. The latter information is gathered by a survey of the export community conducted by Ex-Im Bank specifically for this report. Accordingly, this report provides an analytical assessment of Ex-Im Bank's competitiveness from both an objective perspective, based on published program and policy information on the foreign ECAs, and a more subjective perspective as perceived by Ex-Im Bank program users. This approach lends itself to translating abstract standards of competition to real world experiences that directly impact U.S. exporters seeking official financing support from Ex-Im Bank.

ECA competition generally centers on medium- and long-term business in developing countries. Ex-Im Bank gauges its competitive position in relation to the official export credit agencies of the G-7¹ countries. The comparison is limited to the G-7, because these countries have provided, on average over the last ten years, 80% of the medium- and long-term official export credits of the Organization for Economic Cooperation and Development (OECD) countries. More specifically, the focus is on medium- and long-term export credits, because such activity supports predominantly capital goods export transactions (where there is a substantial possibility of international competition). Moreover, most G-7 ECAs no longer operate official export credit programs for short-term transactions. Quantitative comparisons and information on the G-7 ECAs can be found in **Appendix A** of this report.

¹ The G-7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

CONTEXT: STATE OF THE ECA WORLD

Background

An important component of any discussion of Ex-Im Bank competitiveness is the OECD Arrangement on Guidelines for Officially Supported Export Credits, also known simply as the “Arrangement.” The Arrangement is a “gentleman’s agreement” that defines the ground rules for all OECD-member countries that participate. In the Arrangement’s twenty-plus years of existence, the U.S. negotiators to the Arrangement have strived to reduce many of the market-distorting aspects of officially supported export credits. Among the successes of the U.S. negotiators are: a market-oriented interest rate system; a harmonized risk-differentiated fee regime; a reduction in the incidence of trade-distorting tied aid; and limitations on the length of repayment terms of officially supported export credits. The U.S. Treasury Department has estimated that these rules save the U.S. government about \$800 million in expenditures per year.

These negotiating successes have also served the U.S. export community well, as reflected by many of the findings of this report. Outside these technical aspects of export credit policy, however, are areas in which philosophical and structural differences with other G-7 economies and ECAs have generated competitive challenges to U.S. exporters. These differences historically have been manifest in, for example, other ECAs adopting less restrictive approaches to content policies and the willingness of some ECAs to exploit loopholes in the rules of competition, such as untied aid and market window activity.

Trends in 2001

A major trend affecting the ECAs in 2001 was the widespread review of the basic mission and scope of these institutions. While the reasons for these reviews tended to vary widely among the entities (government-wide reform and reorganizing in Japan, institutional revitalization in Italy, repositioning regarding civil society in Canada and the United Kingdom, re-chartering in the United States, and EU integration in Germany), in 2001 every G-7 system save one was just emerging from, in the midst of, or about to begin a process that would have a fundamental bearing on either the missions or operations of these entities.

Although the goals and reasons for the changes are not fully transparent in many of these situations, there appear to be two major tendencies emerging. Specifically:

- ◆ The ECA world is becoming more disciplined financially and budgetarily, though not necessarily more constrained in volume. This discipline generally takes the form of applying transactional reserves to a capital base to ensure “good practice” in overall resource allocation.
- ◆ There is a broader connection to social concerns in general. While this tendency was most obviously exhibited in 2001 with regards to the environment, the movement also applied to other topics such as human rights and sustainable development.

When such reviews have been conducted in the past, the process has tended to make the affected institution somewhat more risk averse and somewhat less oriented to the development of new programs and initiatives. Looking forward, the expected impacts over the near to mid-term might include:

- ◆ more competition for better risk transactions (e.g., well structured project finance deals and known corporates and sovereigns) and less competition for more marginal risks;
- ◆ less “aid intrusion” (most directly connected to the budget tightening in Japan); and
- ◆ greater incidence of transactions and borrowers for which broader considerations (than credit) have a major impact on the resolution.

In effect, calendar year 2001 was a year of transition for many ECAs, as they moved into the 21st century. The ECA emerging in 2001 appears more market sensitive – both in customer service orientation and financial discipline – but has yet to find a growth niche (except for those supporting sales into the United States). Moreover, at the end of 2001, the major concerns of this new ECA seem much less in the new business area and much more in how to manage the turmoil and restructuring affecting current assets worldwide. This ECA tends to be financially careful, user friendly, but highly selective in terms of risk-taking.

Ex-Im Bank is positioned competitively in this world. The United States has gone through similar exercises over the past decade, and Ex-Im Bank is operating competitively within its parameters in a broad span of markets and businesses.

REPORT

This report proceeds in the following manner. Part 1 is comprised of individual analytical sections that provide an assessment of Ex-Im Bank competitiveness with respect to core ECA competitiveness issues: country cover policy and risk-taking willingness, the all-in cost of an export credit, and ECA content requirements (including recent co-financing initiatives). These sections compare Ex-Im Bank programs, policies and practices with those of foreign ECAs. The following sections focus on large commercial jet aircraft and on tied aid. Finally, the report includes a series of appendices including descriptions of and data from the G-7 official export credit institutions, a summary of the state of play of international negotiations on export credit issues and a variety of other factors that impact Ex-Im Bank’s overall competitiveness.